MCAP

Expertise

Stability

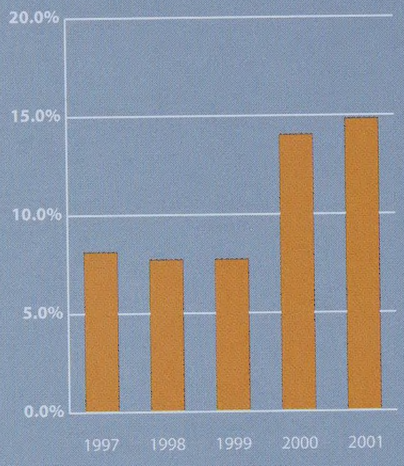
Growth

MCAP Inc.
2001 Annual Report

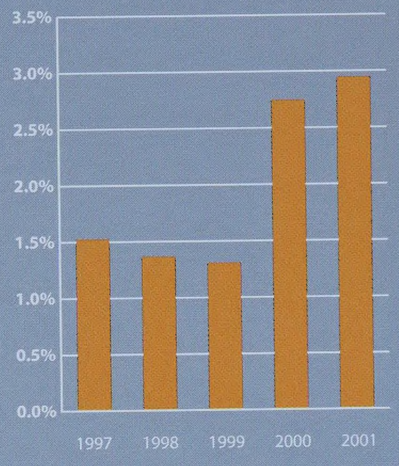
MCAP has emerged as a reliable investment that offers sustainable earnings growth built on solid customer relationships.

Earnings Per Share

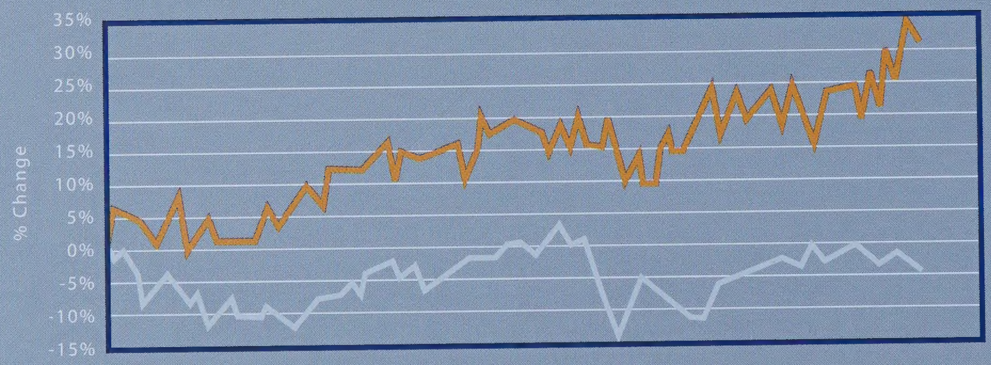
Return on Average Equity



Return on Average Assets



12 Month stock price trend - MCAP Inc. (MKP.TSE)



Orange Line : MKP
Grey Line : TSE Financial Services Index

President and CEO — Derek Norton

MCAP took a straightforward approach to business success in 2001. After evaluating our position and opportunities in the Canadian market, we set realistic but ambitious goals for expansion, focused the right people in the right places, and forged ahead. We executed the plan according to our vision, thanks to the determination and professionalism of our team.

2001 was a challenging year in which we faced dramatic world events and ongoing economic uncertainty. This past year has tested the confidence of everyone, from the average citizen to the institutional investor. MCAP made the most of the opportunities presented in 2001, including some that were not part of our original plan. We acquired new businesses, enhanced operational capability, increased efficiencies and developed our complement of experienced, capable managers.

Our acquisition activity strengthened our commercial mortgage base with the purchase of the third-party servicing business of TD Bank Financial Group and Canada ICI Mortgage Managers Inc. Our transition to owning 100% of MTC Leasing Inc. complemented our mortgage related income with small and mid-ticket lease income and added new business possibilities for both companies. Our acquisition of ICI Mortgage Services Group brings our commercial loan origination capability in line with our already established and successful residential mortgage and construction loan origination businesses.

The acquisitions outlined above resulted in significant growth in our asset and customer base. Consequently, MCAP made long-term investments in technology and processes to ensure that we have the capability to manage and account for our assets and our customers' assets, as well as deliver excellent service to our borrowers, brokers and investors. We also enhanced management to meet control and reporting requirements in the key areas of compliance and risk management.

Throughout 2001, one of our key corporate objectives was to find a strategic partner that shared our vision for success in the mortgage markets in Canada. The ideal partner would need to be involved in complementary businesses and markets, and would be able to provide the capital needed for growth, thus affording MCAP greater access to key markets and enabling us to act decisively on market opportunities. By early 2002, this objective was achieved.

MCAP is very pleased to have completed a comprehensive financing agreement with Bentall Capital II Limited Partnership ("BCLP") and Cadcap Inc. ("Cadcap"), a subsiduary of Cadim Inc. ("Cadim"), which will support MCAP's core objectives for 2002 and beyond. These new partners are involved extensively in real estate related lending, investment and management, all highly complementary to MCAP's strengths in origination, administration and asset management. The new partnership is the culmination of a long and productive relationship between MCAP and BCLP, which involved placement and management of mortgages for pension fund investment.

The financing from BCLP will increase our mortgage funding capacity and provide the capital to complete the ICI acquisition. Of equal importance is the $200 million credit enhancement facility from Cadcap to transform our construction and commercial origination businesses, greatly adding to our ability to commit and fund. Crown Life Insurance Company, the founding partner in our successful MCAP Commercial LP, will remain involved in the business as a stakeholder but sell its direct ownership interest to our new partners.

Entering 2002, the outlook is positive. North American housing markets have continued strong and the shallow recession in the United States appears to be moving back into a growth mode for the first quarter of 2002. Uncertainty remains high in the capital markets, influenced by recent corporate failures in the United States. While this volatility has spilled over into Canadian markets, MCAP has emerged as a reliable investment that offers sustainable earnings growth built on solid customer relationships.

MCAP's key origination markets have experienced consolidation, particularly on the supply side where both commercial and residential mortgage brokers are combining and increasing concentration of ownership. These changes will provide many opportunities for MCAP, which will result in new partnerships, acquisitions and business lines.

Dramatic change in the origination markets has been contrasted by relatively slow developments in mortgage administration markets. Management believes that a consolidation in the market for mortgage administration services is likely although the timing is uncertain. MCAP's acquisition of the third-party servicing business of TD Bank Financial Group and ICI Mortgage Managers Inc. is a first step toward building this business. While we pursue further developments in this market our very strong origination businesses will maintain a healthy supply of mortgages needed to increase our serviced portfolios.

Changes in capital markets, in particular a move toward increased securitization of mortgage assets, will provide many opportunities for both origination and administration. Management has positioned the company to take full advantage of this emerging trend.

The company has carefully constructed the foundation for future growth. In keeping with our corporate and personal values, we also gave back to the community as a supporter of Habitat for Humanity and the United Way. We are proud that our employees also gave their financial support and volunteer time to these organizations.

MCAP and associated companies are Canada's largest independent mortgage group as measured by fundings and administered assets. We remain committed to further capital expansion and continued growth of our profitable operations. As always, we rely on the proven abilities of our management and support team to execute our plans and make our vision for success a reality.

Our main assets are our people; because of them, our key business relationships are extensive, our technologies are scalable, our plans are attainable, and our sustainable competitive advantage is significant. We thank them for another outstanding year, and invite our shareholders to join us as we profit from the many changes on the way in our segment of the financial services industry.

Derek Norton
President and Chief Executive Officer

Expertise

Stability

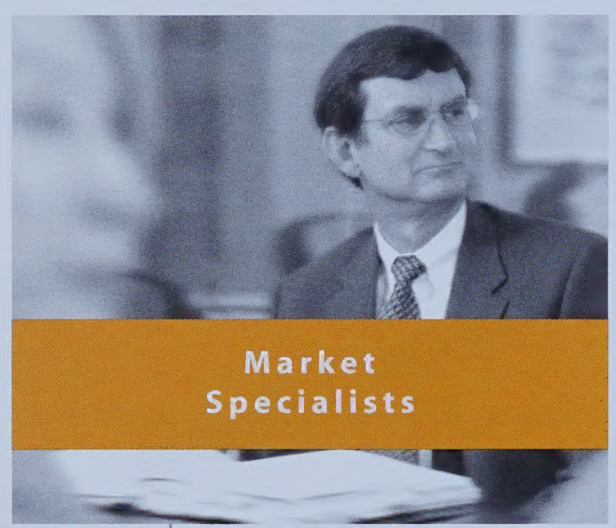
Growth

MCAP Inc. has proven expertise in mortgage origination, administration and asset management. Our success is founded on the talent and commitment of our people. Investors value the company for its long-term stability and growth potential.

Expertise

Resourceful people providing intelligent mortgage solutions for borrowers and investors.

The words "knowledgeable specialists" describe our employees, but that's just the start. MCAP people are established relationship builders, adept at developing innovative mortgage solutions for brokers, borrowers and investors, using every opportunity to add value. These relationships have broadened over time, and the circle of customer contacts has widened. Trust has been bolstered by our team's commitment to the highest professional and ethical standards.



To meet the needs of an ever-changing marketplace, the company has continued to evolve. From our roots as a traditional mortgage investment company, MCAP has progressed to become an integrated mortgage services group, following a business model similar to the U.S. mortgage banks. The company is engaged in four main business activities:

Origination: sourcing, underwriting and funding residential, commercial and construction mortgage loans. MCAP has developed strong relationships with builders, developers, commercial property owners, and independent mortgage brokers.

Administration: managing customer service for mortgage borrowers, including payment collections, renewals, defaults and refinances. This type of fee-based business is our most rapidly growing revenue stream, and enables MCAP to increase income without a corresponding increase in capital.

MCAP has the advantage of independence – we don't compete with our customers. MCAP has earned the confidence of brokers, borrowers and investors alike by recommending solutions that are aligned with the customer's best interests. Investment recommendations are closely reviewed and matched with the investor's risk tolerance. Client records are kept confidential, and in accordance with strict privacy laws preventing information from being shared with any other company, including an MCAP subsidiary company.

Asset Management: activities include mortgage warehousing, hedging, pooling, acquiring, selling, securitizing, swapping, and customer service for investors. Assuming an intermediary role, MCAP arranges loans individually or in portfolios and resells them to other lenders and investors.

Securitization: eligible loans are pooled, with investors acquiring an equity share in the pool rather than a direct interest in the mortgage.

MCAP has in-depth knowledge of Canada's mortgage and real estate finance market, operating successfully as a key player among larger financial institutions. Building value for our customers is a top priority:

- For borrowers, MCAP provides responsive service, increasing customer satisfaction through advanced technology at our customer call centre, where client information is available online in real-time. Customer care is evident in our total case management approach.
- Brokers are valuable allies in the residential market so we provide innovative broker programs that increase their loyalty.
- Business partners have outsourced their mortgage underwriting and administration to MCAP. Entrusted with this responsibility, MCAP adds value by providing excellent service to their customers, and achieving superior retention of mortgages at renewal. Other outsource functions include property tax administration and defaulted loan recovery.
- For investors, MCAP maintains superb relations by providing personalized service and timely, detailed reports on the yield and asset quality of their invested portfolios, as well as valuable information about emerging investment opportunities.

MCAP Inc.

A storehouse of knowledge

Developed business acumen

Building value for customers

Stability

Impressive list of long-standing customers and long-serving employees.

On a consolidated basis, the company enjoys substantial fee-based business. MCAP is mainly involved in originating and managing assets for institutional investors and pension funds, so the company's core business is secure and low risk. Key clients include Bank of Montreal, Crown Life Insurance and Clarica Life Insurance.

The strategy to maintain stability includes:

- Investor diversification involving a mix of portfolio sizes and asset types to ensure the company is not unduly reliant on one customer.
- Market segment diversification in all three sectors of mortgage origination and administration: residential, commercial, and construction. MCAP is a financial partner in all types of construction projects, from high-rise condominiums to office buildings and non-profit developments. For geographic diversification, MCAP conducts business in all of Canada's major urban centres.
- Maintenance of sound risk management policies and practices. Our risk management group maintains strict underwriting standards and ensures that investments comply with criteria set by investor clients. On the origination side, rigorous credit evaluation helps minimize loan losses.
- Prudent balance sheet management, including a commitment to maintaining conservative liquidity ratios.

Committed Employees

Our seasoned management group is composed of talented individuals who have a significant ownership stake in the company. Over seventy percent of the senior managers have been with MCAP and predecessor companies for over 10 years.

MCAP makes effective use of assets by operating a portion of the balance sheet as a warehouse. Following the warehouse model, the company uses capital to fund loans and resell them through securitization to capital markets and direct sales to institutional investors. Through careful hedging, under the guidance of experienced management, MCAP has been successful in its mortgage warehouse program.

With the continuing economic uncertainty in North America and abroad, investors are turning once more to the relative safety of fixed income investments such as mortgages. Investors are choosing MCAP as a trusted partner to meet their needs.

Value Proposition for Investors:

- MCAP provides the flexibility of a mortgage broker, the financial conservatism of a bank, and the market intelligence of a securities firm.
- Like a broker, MCAP is independent, and so gains access to many funding sources and investment opportunities.
- Like a bank, MCAP is federally regulated by the Office of the Superintendent of Financial Institutions.
- Like a securities firm, MCAP is able to package mortgages in many innovative ways, and operate in all of the major capital markets.

MCAP Inc.

Diversification reduces risk

A balanced financial approach

Proven support from our people

Growth

Positioned for growth with a blend of vision, flexibility and strong relationships.

Because of our expertise in financial structuring and the flexible options we provide, MCAP adds value to mortgage origination. MCAP is able to maintain mutually profitable business relationships with numerous referral sources including mortgage brokers, life insurance agents, lawyers and financial planners. To increase revenues, MCAP will continue to build this network .

On the investment side, MCAP has carefully cultivated a diverse base of investors, and now has more than 60 institutional investment clients. These clients invest directly, in a pool of mortgages, or through a securitization. It's an ongoing priority to maintain and increase this investor base in order to build long-term profitability.

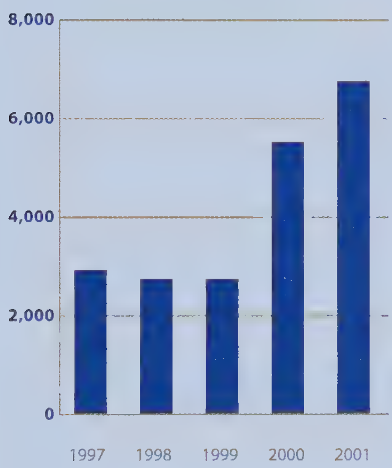
To grow, MCAP must maintain its competitive advantage in the Canadian market. The company has achieved sustainable profitability by operating in market segments that reward focused, relationship-oriented service providers. Competition exists on a segment by segment basis, but no competitors offer the range of services provided by MCAP. To maintain our position of strength, it's essential to invest in the best available technology, so we can produce greater economies of scale, increase efficiency, and stay at the forefront of competition.

With a substantial mortgage administration and origination platform in place, MCAP has the ability to significantly increase mortgage loan production and volumes with relatively little impact on unit costs. MCAP strives to be the "low-cost producer" for mortgage administration in the Canadian market.

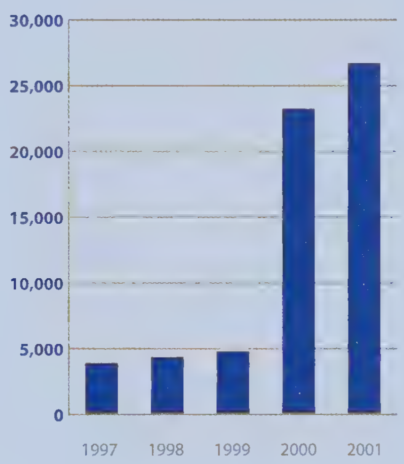
MCAP will continue to evaluate potential new strategic opportunities as they arise, concentrating on areas where MCAP has the management depth to succeed, and where market opportunities exist.

In the future, MCAP expects to make further acquisitions, raise new capital and develop new business alliances, thereby widening and strengthening our foundation to support future growth.

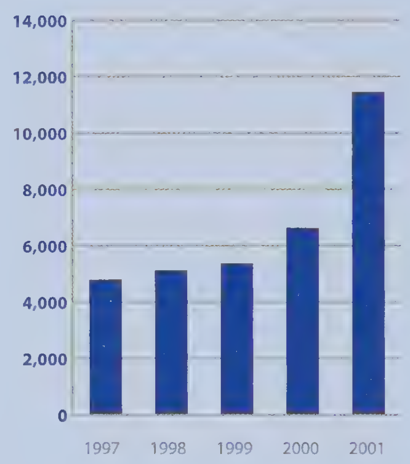
Net Income
$ Thousands



Total Revenue
$ Thousands



Total Assets Administered
$ Millions



MCAP Inc.

Blueprint for expansion

Forming new alliances

Building long-term profitability

Report on Operations

In 2001, MCAP Inc. (the "Company" and/or "MCAP") completed another eventful and productive year. The Company carried out activities that were consistent with the strategic plan established in 2000, adjusted planned objectives where necessary to respond to market conditions and made steady progress toward the goal of increasing shareholder value.

The Canadian economy experienced a slowdown in 2001 and the events of September 11th led to greater uncertainty in September and the fourth quarter. Residential real estate markets remained buoyant during the year, largely sustained by lower interest rates in the United States and Canada. The Company's affiliates, MCAP Service Corporation and MCAP Mortgage Corporation, had a record sales year, originating $4.7 billion in new single family mortgage commitments, and ending the year with $7.8 billion of mortgages under management, up 38.7% from December 31, 2000. This increase in business volumes, together with mortgage trading profits, marketable securities gains and the income of MTC Leasing Inc. ("MTCL") contributed to a 6.1% increase in annual earnings per share to $0.85, up from $0.80 in 2000. The common share price rose from $7.00 per share on December 31, 2000 to $8.73 at December 31, 2001, an increase of 24.7%.

Subsequent to the 2001 year-end, the Company raised $9.95 million in share capital from BCLP and Crown Life Insurance Company ("Crown Life") by issuing 1,293,333 new common shares. BCLP's general partner is Bentall Capital Limited Partnership ("Bentall"), which is indirectly owned 55% by the Caisse de dépôt et placement du Québec ("CDP") and is a fully integrated real estate service company involved in real estate investment management, property services, property development and real estate merchant banking.

In addition, the Company acquired the Canada ICI Mortgage Services group of companies and the mortgage servicing rights of ICI Mortgage Managers Inc.; together, the ICI companies are the largest independent commercial mortgage loan originator in Canada. MCAP management is confident that these transactions will contribute to record loan origination volumes, asset management levels and earnings for the Company in 2002.

The Company remains true to its vision of being Canada's largest independent mortgage origination and servicing group. Our mission remains:

- To provide innovative solutions to satisfy the needs of our customers;
- To consistently provide the highest level of professional service;
- To establish and maintain the trust and confidence of our borrowers, investors and employees; and
- To create long-term growth and value for shareholders and investor clients.

Recent Business Developments

The Company has continued to build on last year's foundation by acquiring complementary businesses and by raising additional capital in 2001 and in early 2002. This growth has helped the Company achieve the critical mass necessary to be a major competitor in all segments of the Canadian mortgage market.

In recent months, the most significant growth has occurred in the Company's commercial mortgage origination and administration operations. This growth has been achieved mainly through three transactions: the acquisition of the third-party mortgage servicing business of TD Bank Financial Group on August 1, 2001; the acquisition of the Canada ICI Mortgage Services group of companies concluded on February 28, 2002; and the concurrent purchase of the mortgage servicing business of ICI Mortgage Managers Inc. concluded on February 28, 2002. With approximately $4.5 billion of commercial mortgage loans presently under management, the Company has become the largest independent commercial mortgage loan originator and servicer in Canada.

In the same way that the growth of commercial lending is an important development, the growth of the Company's capital is of great importance. The Company raised $12.2 million of new capital through the following transactions, all of which occurred in February, 2002: a $7.2 million private placement of 960,000 new common shares with BCLP; a concurrent $2.2 million issuance of 3.4 million warrants to BCLP; and a $2.75 million private placement of 333,333 new common shares with Crown Life. Each warrant entitles the holder to purchase one common share of MCAP Inc. at an exercise price of $7.50 per share. The warrants are subject to a five-year vesting period and BCLP is presently precluded from acquiring greater than 10% of the common shares of the Company, as set out in the Trust and Loan Companies Act.

In addition to new share capital, the Company simultaneously issued a $20 million subordinated debenture to BCLP. The loan bears interest at 15% per annum and has a 15-year term to maturity. It is secured by a subordinated debenture issued by MCAP Financial Corporation ("MFC") that includes a conversion feature permitting the holder to convert its interest into 50.1% of the

A NOTE ABOUT FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements about MCAP. A forward-looking statement is subject to risks and uncertainties that may be general or specific. A variety of factors, many of which are beyond MCAP's control, affect the operations, performance and results of MCAP, and could cause actual results to differ materially from the expectations expressed in any of MCAP's forward-looking statements.These factors include current, pending and proposed legislative or regulatory developments; intensifying competition, resulting from established competitors and new entrants in the financial services industry; technological change; capital market activity, including interest rate fluctuation and general economic conditions; the impact of the events in New York and Washington on September 11, 2001; changes in market rates and prices which may adversely affect the value of financial products; and MCAP's success in managing the costs associated with the expansion of existing distribution channels, developing new ones and realizing increased revenue from these channels. This list is not exhaustive of the factors that may affect any of MCAP's forward-looking statements. These and other factors should be considered carefully and readers should not place undue reliance on MCAP's forward-looking statements. MCAP does not undertake to update any forward-looking statement that is contained in this annual report.

outstanding common shares of MFC. This conversion feature may be exercised at the option of the holder at any time during the debenture's 15-year term. A significant portion of the capital raised through this loan was utilized to acquire the ICI companies and to pay transaction and share issue related expenses. The balance will be used as working capital and for general corporate purposes.

Bentall is primarily involved in the real estate *equity* markets through direct property ownership and/or the management of direct property investments on behalf of other investors. Conversely, the MCAP group of companies is involved in real estate *debt* markets as a principal lender or as the agent of institutional investors. These two markets and businesses complement one another. For this reason, Bentall has made a strategic investment in the MCAP group of companies through BCLP; in addition to the $20 million subordinated debenture described in the previous paragraph, Bentall has facilitated the arrangement of a $200 million standby loan facility from Cadcap, a subsidiary of Cadim, which in turn is a subsidiary of CDP. This facility has been granted to MFC by Cadcap primarily to support the securitization programs of the Company.

In a separate transaction, MFC became the sole shareholder of MTCL, by acquiring 90% of the outstanding shares of MTCL, in addition to the 10% that MFC had owned previously. This acquisition was concluded on August 1, 2001 through the issuance of 593,602 common shares of the Company, of which 78,000 will be held in escrow and released to the vendors as future earnings targets are achieved, for a purchase price of $3.9 million. MTCL originates and services equipment leases primarily in the Ontario market. Lease receivables under administration at December 31, 2001 were approximately $68 million. While this acquisition represents strategic and valuable diversification into a new line of business, MTCL's leasing business is operationally similar to MCAP's mortgage business. This provides an opportunity for future synergies and cost savings.

The developments outlined here represent significant milestones in the Company's history and will provide the foundation for future growth. To efficiently manage this growth, the Company reorganized its senior management structure effective January 1, 2002. Most notably, Steve Maker was appointed Chief Operating Officer of the MCAP group of companies and President of MCAP Financial Corporation. The Company also added three new senior management positions to ensure that regulatory and legislative compliance are managed effectively: Ken Teskey was appointed Chief Compliance Officer; Anthony Stilo was appointed Chief Audit Officer; and Blaine Welch was appointed Chief Risk and Investment Officer. All four positions, along with the Chief Financial Officer, Lorne Jenkins, report to Derek Norton, Chief Executive Officer of the Company.

For 2002, the emphasis is on achieving "operational excellence" in all lines of business. The restructured senior management team will focus on integrating the new operations, assets, employees and investor clients into the Company's business environment. Senior management will streamline operations to improve efficiency and reduce costs, while at the same time continuing to pursue new business opportunities in accordance with the Company's strategic plan.

As a final note, the Toronto operations of the Company will be moving to new premises in April of 2002. The new premises are situated one city block away from the present Company office. This change will help to accommodate the Company's growing employee base and enable us to install a new system network without any disruption of our daily business. The net result will be increased efficiency and productivity, which in turn will facilitate future growth.

Results from Operations

Earnings for the year ended December 31, 2001 were $6.8 million, up $585,000 from 2000. Earnings per share were $0.85 versus $0.80 per share in 2000, reflecting a 6.1% improvement. Return on average equity was 14.8%, exceeding the previous year's return on average equity of 14.6%. During the year, shareholders' equity increased from $42.9 million to $48.1 million as a result of an increase in retained earnings in the amount of $1.3 million and the issue of an additional $3.9 million of share capital on August 1, 2001 to acquire MTCL.

During the year, income-earning assets held on the balance sheet were optimized as planned by adjusting the asset mix to further enhance earnings.

The Company strategically managed its marketable securities portfolio to realize gains on the portfolio that resulted in net returns of 25.3% for the year.

MCAP was very active in the mortgage trading business, particularly in the last four months of 2001. When mortgage spreads improved in the early summer of 2001, the Company stepped up warehousing and selling mortgages to its many investors. Strong investor interest in mortgages, as an alternative to bonds, increased in the late summer and escalated further after September 11, 2001. During the last four months of the year, the Company's trading volume for mortgages was $75 million, as compared to $25.8 million for the first eight months of 2001 and $174 million for all of 2000. The Company's trading income for the last four months of the year was $2.2 million, compared to $520,000 for the first eight months of 2001 and $505,000 for all of 2000. Wider interest spreads in 2001 contributed to the year-over-year improvement.

Net Investment Income

Net investment income improved 70.3% to $13.7 million compared to $8.1 million in 2000. Net investment income increased due to a continued strong performance from the marketable securities portfolio, which generated a net return of 25.3% for the year. This compared favourably to a net return of 17.5% achieved in 2000. Mortgage trading activities contributed $2.7 million on total asset sales of $100.8 million. Equity income from partly owned companies increased 108% to $769,000 as a result of strong

performance from the single family residential business at MCAP Mortgage Corporation and MCAP Service Corporation. MTCL became a wholly owned subsidiary of MFC in August and contributed $2.2 million in leasing income for the last five months of 2001. In 2000, MTCL earnings were reported as equity income from partly owned companies.

At December 31st, matched spreads on investments maturing within 12 months fell to 1.54% from 2.60% in the previous year due to the fact that the prime bank rate declined further during the year than the Corporation's cost of funds; this trend would be expected to reverse itself in a rising interest rate environment. A significant portion of investments maturing within 12 months consists of residential construction loans that generate income based on the prime bank rate. The prime rate of interest declined 350 basis points from 7.50% at the beginning of the year to 4.00% by December 31, 2001. This contributed to a decline in spread income on the Company's floating rate business during the year. By way of comparison, during 2000 the prime rate of interest rose three times, resulting in a total increase of 100 basis points, from 6.50% at the beginning of the year to 7.50% by December 31, 2000. The matched spread on assets maturing in one to five years rose to 2.37% from 1.95%.

Fee Income

Fee income derived from the loan origination and management business of MFC contributed $13.0 million, down 14.3% from $15.2 million in 2000. The drop in fee income consists primarily of a $2.9 million year-over-year drop in mortgage origination and administration fees due to reduced residential construction and commercial loan administration fees. However, the drop in fee income was partially offset by increased leasing income of $710,000 during the last five months of 2001.

The Company continues to focus its residential construction lending in the Toronto, Calgary and Vancouver metropolitan areas. These areas represent three of Canada's largest economic centres, as measured by population.

Total new construction loan commitments reached $697 million in 2001, up 38.3% from $504 million achieved in 2000. Specifically, the Toronto branch commitments were up 37.2% year-over-year from $274 million to $376 million; the Calgary branch commitments were up 24.5% year-over-year from $159 million to $198 million; and the Vancouver branch commitments were up 72.2% year-over-year from $72 million to $124 million.

Several factors contributed to the dynamic housing market in 2001 and to a corresponding increase in MCAP's loan commitment levels. Low mortgage rates had a positive impact on housing affordability and contributed to demand, as did low vacancy rates for apartments (in some areas) and a high level of immigration to Canada. Demand for new housing was evident, with Statistics Canada reporting that municipalities issued building permits for construction worth $36.9 billion from January to the end of November 2001, an increase of 9.0% when compared to the same period in 2000.

In contrast, the Company's total new construction fundings were down 7.2% in 2001, dropping to $597 million from $644 million achieved in 2000. Fundings were down year-over-year primarily because of low loan commitment volumes at the end of 2000 and slower commitment production of $274 million in the first six months of 2001. Contributing to lower commitments was a reduction in apartment condominium financing in the Toronto area, as well as fewer large land servicing loans.

Lower new fundings in 2001, combined with the repayment of loans originally funded in 1999 and 2000, together reduced the average construction loans under management year-over-year to $372 million in 2001, down from $463 million in 2000. Reduced loans under management resulted in lower loan administration fees in 2001. The trend will reverse itself as the year-over-year increase in new construction commitments begins to have a positive effect on assets under management, which in fact did increase from $335.9 million at July 31, 2001 to $378.8 million at December 31, 2001.

The commercial mortgage origination and servicing business ended the year in a strong position with the acquisition of TD Bank Financial Group's third-party mortgage servicing business. As a result, commercial assets under management grew from $1.16 billion in 2000 to $3.23 billion at December 31, 2001.

Commercial assets under management will increase by $1.25 billion when the Company completes the acquisition of the mortgage servicing rights of ICI Mortgage Managers Inc. At the same time, the Company will complete the acquisition of the ICI Canada Mortgage Services group of companies, which originated approximately $2.0 billion of new mortgage loans during its fiscal 2001 year. As a result of these transactions, MCAP's commercial loan origination volumes and assets under management will be significantly higher in 2002 than in 2001.

Operating Expenses

Consolidated operating expenses increased by $2.2 million to $20.0 million in 2001. However, operating expenses represented 74.7% of revenue from operations in 2001 compared to 76.2% in 2000. Expenses increased after the TD Bank Financial Group and MTCL transactions were completed in August as the Company absorbed the related staffing costs. The Company also continued to invest in up-to-date systems technology and fulfilled other staffing needs in order to strengthen operations and support Company growth.

The Company remains committed to technological excellence in all of its production and administrative business units. For example, the new OMIGA™ front-end mortgage underwriting system will be implemented by MCAP Mortgage Corporation in 2002 and is expected to improve operating efficiencies immediately.

Affiliated Companies and Other Investments

Affiliated companies MCAP Service Corporation, MCAP Mortgage Corporation and MTCL contributed equity earnings of $768,700

in 2001, a 108% improvement over 2000. MTCL ceased to be an affiliate on August 1, 2001 when the Company acquired all of its outstanding common shares. As a wholly owned subsidiary, MTCL's financial results are reported on a consolidated accounting basis for the last five months of the year.

Low mortgage rates had a positive impact on housing affordability, and this in turn contributed to an increase in business volumes and earnings for MCAP Service Corporation and MCAP Mortgage Corporation. The single family mortgage business generated new commitments of $4.7 billion and funded $3.1 billion of new loans versus $2.6 billion and $1.7 billion respectively for 2000. In addition, loans under management rose from $5.6 billion to $7.8 billion.

According to the Company's economic forecast, continued low interest rates, low apartment vacancy rates and positive net immigration to Canada in 2002 will support steady demand for housing and lead to another productive year in the single family mortgage business. The Company will continue to pursue new origination opportunities and portfolio acquisitions as feasible.

Credit Risk and Provisioning

The provisions for losses increased $436,000 during the year or 0.26%, compared with the increase in loan loss provisions of $358,000 or 0.18% in 2000. Of this amount, $424,000 was allocated to loan loss exposures that had been identified, and the balance of $12,000 was applied to the general allowance for loan losses, which represents 1.0% of risk-weighted assets and is unchanged from last year.

Provisions were increased primarily as a result of increased arrears levels in the uninsured loan portfolio. In 2001, arrears levels reached 2.8%, a significant increase from the low level of 0.72% in 2000. MCAP continues to proactively monitor arrears, and to take prudent steps to collect overdue accounts. Provided that real estate markets remain stable, management does not expect an increase in loan loss experience in 2002 versus 2001.

Financial Position

Total assets at December 31, 2001 were $221.6 million, a decrease of 9.0% compared to total assets of $243.6 million in 2000. This decrease was primarily due to a $30.5 million decrease in mortgages to $167.1 million, from $197.6 million at December 31, 2000. The decrease in mortgages occurred as a result of the Company's sale of $69.5 million of mortgages in the last quarter of 2001, realizing $2.1 million of trading income. Assets remain well diversified by type, geography, obligor and duration.

Shareholders' equity increased 12.1% year-over-year from $42.9 million to $48.1 million at December 31, 2001 due to a $1.3 million increase in retained earnings, and the issue of $3.9 million in new common share capital to acquire MTCL.

Subsequent to the Company's December 31, 2001 year-end, capital increased a further $12.2 million as a result of the issuance of 960,000 new common shares and 3.4 million warrants to BCLP together with 333,333 new common shares to Crown Life.

The Company will utilize additional capital to increase its asset base during 2002, in accordance with the 9:1asset-to-capital multiple permitted by Office of the Superintendent of Financial Institutions. The Company will also comply with the 5:1 ratio for liabilities to assets in excess of liabilities, as prescribed for Mortgage Investment Corporations within the Income Tax Act. In 2002, management will continue to focus on optimizing the Company's asset mix, and apply prudent investment principles to maximize revenue and create long-term shareholder value.

Asset mix at December 31 was as follows:	2001	2000
Cash and cash equivalents	**9.2%**	8.6%
Marketable securities	**4.9**	3.7
Single family mortgages	**54.1**	64.8
Residential construction loans	**17.4**	12.9
Non-residential construction loans	**1.4**	0.9
Commercial term mortgages	**2.5**	1.6
Leases	**1.5**	-
Other investments	**2.7**	3.3
Other assets	**6.3**	4.2
	100%	100%

Cash equivalents include treasury bills, bank deposits and commercial paper. These investments ensure adequate liquidity to meet maturing debenture and new mortgage commitments.

Marketable securities comprise a diversified portfolio of REIT, income trusts, and royalty trusts. These investments are matched by the Company's equity base and improve returns and the diversification of the Company's investment portfolio. The Company's investment policy limits marketable securities to 10% of total assets.

Single family mortgages include uninsured mortgages with a loan-to-property value of 75% or less, and insured mortgages over 75% of property value. Mortgages are typically granted for terms of six months to five years and can be funded by debentures with similar maturities.

Residential construction loans are made to homebuilders in residential construction projects. These loans generally have a floating rate of interest and terms of one to two years. The Company limits non-residential construction loans to 2% of

assets. Total construction loans (residential plus non-residential) are limited to 20% of total assets. A single construction loan may not exceed $5 million.

Commercial term mortgages secure commercial properties and have a loan-to-property value of 75% or less. These mortgages have terms ranging from six months to five years. The Company limits its investment in these assets to 5% of total assets. The maximum single commercial term mortgage may not exceed $2 million.

Other investments include equity investments in MCAP Mortgage Corporation, a single family mortgage origination company; MCAP Service Corporation, a single family mortgage servicing company; and other companies within the mortgage industry that are of strategic interest to the Company. For 2001, earnings for MTCL for the first seven months of the year are captured under Other Investments. Thereafter, the earnings of MTCL were consolidated with those of the Company.

Other assets include accounts receivable, fixed assets, tax assets, goodwill and intangible assets.

Net impaired loans ended the year at 2.81% of the total loan portfolio, up from 0.72% in 2000. General allowances were at 1.0% of risk-weighted assets, unchanged from last year.

Funding

The Company issues debentures, insured by Canada Deposit Insurance Corporation, largely to individuals. The Company matches the repricing of its assets with its liabilities; matching helps ensure that earnings will not be materially affected as a result of changes in interest rates. Note 14 to the consolidated financial statements displays the balance sheet sensitivity to interest rate changes. The Company is well positioned to withstand changes in interest rates.

Capital Adequacy

The Company has two significant capital tests that must be closely monitored. As a Mortgage Investment Corporation, the Company is limited by the Income Tax Act to a test of 5:1 for liability to assets in excess of liabilities on its unconsolidated tax value balance sheet. As a federally regulated financial institution, the Office of the Superintendent of Financial Institutions granted the Company a 9:1 ratio for consolidated assets to regulatory capital, effective December 28, 2001.

The Company operates and manages its balance sheet to the 5:1 liability test since it is the most constraining on operations. This ratio is significantly lower when compared to the major banks, which frequently leverage assets to more than 20 times capital. The Company's low leverage, combined with its relatively conservative asset mix, reduce the risk of earnings cyclicality and loss of book value.

Liquidity

The Company closely monitors its liquidity position to ensure it has sufficient cash to meet liabilities as they become due. In general, the Company maintains liquid investments in excess of 20% of debentures maturing within 100 days. In addition, all marketable securities and single family mortgages are readily marketable within a one-to-three month time frame, thus providing the Company with added flexibility to meet liquidity needs.

Risk Management

The Company's business is subject to various risks, including competition, credit losses, interest rate movement and the changing housing market. However, the single most significant risk is competition. The markets for single family mortgages and insured deposits and debentures are extremely competitive and the spreads can vary significantly in the short run. The Company mitigates this risk through investment diversification, and by diligent management of assets and liabilities.

Credit losses occur when a borrower fails to meet its obligations to the Company and the value realized on sale of the real estate deteriorates below the loan amount. All personnel are subject to limits on their ability to commit the Company to credit risk. Credit and commitment exposure is closely monitored through a reporting process that includes a formal quarterly review involving senior management and the Investment Committee of the Board of Directors.

The Company's exposure to credit risk is managed through risk management policies and procedures that emphasize the quality and diversification of the Company's investments. The Company's policies establish limits on concentration by asset class, rating, geographic region, dollar limit and borrower. By managing and matching the terms of mortgages and debentures so that they offset each other, the Company reduces risks associated with interest rate changes. The Company's Asset and Liability Management Committee reviews and manages this risk on a weekly basis. Management provides quarterly reports to the Board regarding compliance with the Company's matching criteria.

Market risk on marketable securities is managed through prudent investment selection and diversification by security and industry. Marketable securities are matched by the Company's equity base and are currently limited by the Company's investment policy to 10% or less of total assets.

The Company also manages legal, tax, environmental and regulatory risks. In 2001, regulatory risk came under added scrutiny as regulators began the process of establishing new risk management guidelines and policies for the financial services industry. Regulators focused their efforts on two main areas: consumer protection and corporate governance. Regulations establishing consumer protection guidelines are not new and the Company has historically always operated within these guidelines. In 2001, however, two federal agencies were established, the Financial Consumer Agency of Canada and the Financial Transactions and Reports Analysis Centre of Canada ("FINTRAC"). The Financial Consumer Agency of Canada has a two-part mandate to educate and protect Canadian financial consumers. FINTRAC's mandate is to collect, analyze, assess and disclose information in order to

assist in the detection, prevention and deterrence of money laundering. The Company is now working constructively with both agencies to manage associated risks, focusing on these issues: privacy of information; disclosure relating to the cost of borrowing; protection and security of information; and business continuity planning. In the wake of September 11th, the Company has also begun initiatives to strengthen its disaster recovery strategies.

In response to the increased regulatory requirements, the Company has created a new Chief Compliance Officer position to monitor the Company's adherence to legislation. Together with senior management, the Chief Compliance Officer develops policies for risk identification and monitoring, as well as processes and internal controls to manage regulatory compliance.

The Company has established risk management policies and procedures designed to measure and control risk in all of its business activities. All risk management policies and procedures are reviewed annually to evaluate their continued appropriateness. Internal auditors review the effectiveness of certain prescribed controls and report regularly to senior management. External auditors review the effectiveness of internal controls to the extent necessary to conduct an audit of the annual financial statements; they report to the Audit Committee of the Board of Directors annually on matters that come to their attention during such audits.

Ultimately, risk management is controlled at the highest level of the Company. The Board of Directors reviews and approves all risk management policies and procedures with respect to asset-liability mismatch risk, liquidity risk and credit risk. Without exception, all other key risk exposures are reported to the Board of Directors by management.

Outlook

The Company has completed, and is in the process of completing, significant acquisitions in 2001 and 2002. These acquisitions involve staff transfers, system conversions, new investors, expanded operations, and greater visibility with investors and within the mortgage industry in general. While future opportunities will be considered, the Company will now focus on ensuring that the processes, systems and management of these acquisitions are integrated and fully functioning.

In the coming year, the Company will concentrate on building the fee-based business and increasing mortgage trading profits. To be successful, the Company must continue to focus on its key strengths: to provide experience and expertise in mortgage loan origination, funding and management together with cost-effective access to the capital markets; to ensure quick, efficient loan approvals together with knowledgeable funding and administration of loans; and to operate a portion of the balance sheet as a "warehouse" that funds loans before their resale to investor clients or potential conduits to the capital markets, all the while retaining the long-term asset servicing and renewal rights.

The opportunities and challenges the Company will face in 2002 will be shaped by the economy and the competitive landscape. Volatility in the equity markets over the past 12 months combined with a weak economy in the United States and the broader North American markets could lead to a construction slowdown, with fewer properties available in the resale market and reduced overall housing demand. While the Company remains optimistic about the coming year, we will proceed with caution until the economic environment becomes more stable and the impact of any fiscal or monetary policy shifts in the U.S. or Canada become clear.

In the commercial mortgage industry, the competitive landscape has been subject to considerable change over the past few years. It is not uncommon to see banks move in and out of this sector depending on economic views, spreads, new relationships and other factors. Meanwhile, consolidation continues within the life insurance industry, which for years has been a significant source of commercial mortgage funds. These changes, while creating uncertainty in the marketplace, also create opportunity for the Company.

The residential construction lending business gets more complicated every year as building codes and municipal approvals become more complex and the market gets more sophisticated. MCAP has a very experienced, knowledgeable team in this area and sees continued growth and profit opportunities, particularly as the barriers to entry for this line of business continue to increase.

Changes are also taking place in the residential mortgage market. Consumers are increasingly turning to new sources for mortgage financing on competitive terms. These include mortgage brokers, the Internet and non-financial retailers. At the same time, banks are looking at new cost-effective means to distribute their products, other than through the traditional branch network. As a result, the larger residential brokers are consolidating, and developing a more educated and professional sales force; they are using technology to service the consumer; and developing new electronic distribution channels. The Company is strategically well positioned through its affiliate operations of MCAP Mortgage Corporation and MCAP Service Corporation to work together with the brokers, non-financial retailers and small financial institutions to meet the needs of consumers and capitalize on market demand.

The Company will continue to seek opportunities to grow through acquisition, the addition of capital and/or strategic partnering but only in circumstances that minimize incremental risk, when the transaction is expected to increase shareholder value and supports the Company's long-term strategic plan. It appears that there could be many excellent opportunities for the Company in the near future as the expected changes to the Canadian financial services industry and mortgage markets continue to unfold. With an experienced management team and the support of the Board of Directors, we look forward to taking full advantage of these opportunities as they arise.

MANAGERS' REPORT

The accompanying consolidated financial statements of MCAP Inc. are the responsibility of management and have been approved by the Board of Directors. Management is responsible for the information and representations contained in these financial statements and other sections of the annual report. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

Appropriate systems of internal control, policies and procedures have been maintained to provide reasonable assurance that the Company's assets are safeguarded and to ensure that financial information is both relevant and reliable.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. These responsibilities are carried out primarily through an Audit Committee of unrelated directors appointed by the Board of Directors.

The Audit Committee meets periodically with management and the external auditors to discuss internal control over the financial reporting process, auditing matters and financial reporting issues. The Audit Committee reviews the consolidated financial statements and recommends them to the Board of Directors for approval. The Audit Committee also recommends to the Board of Directors and Shareholders the appointment of external auditors and approval of their fees.

The consolidated financial statements have been audited by the Company's external auditors, Ernst & Young LLP, in accordance with Canadian generally accepted auditing standards. Ernst & Young LLP has full and free access to the Audit Committee.

Derek Norton
President and Chief Executive Officer

L. S. Jenkins

Lorne S. Jenkins
Vice-President and Chief Financial Officer

AUDITORS' REPORT
To the Shareholders of MCAP Inc.

We have audited the consolidated balance sheets of **MCAP Inc.** as at December 31, 2001 and 2000 and the consolidated statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada.

Ernst & Young LLP

Ernst & Young LLP
Chartered Accountants, Toronto Canada
February 20, 2002

(dollars in thousands) *As at December 31,*	Note	2001	2000
ASSETS			
Investments			
Cash and cash equivalents	3	**$ 20,341**	$ 21,211
Mortgages	4	**167,145**	197,616
Other investments	5	**20,130**	14,213
		$ 207,616	$ 233,040
Accounts receivable	6	**3,909**	5,204
Capital assets	7	**3,615**	2,980
Goodwill and intangible assets	8	**3,177**	-
Other assets	9	**3,284**	2,343
		$ 221,601	$ 243,567
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Debentures	10	**$ 155,047**	$ 186,694
Accounts payable	6	**9,235**	8,899
Loans payable	11	**9,170**	5,029
		173,452	200,622
Shareholders' equity			
Share capital	12	**46,321**	42,454
Retained earnings		**1,828**	491
		48,149	42,945
		$ 221,601	$ 243,567

See accompanying notes

On behalf of the Board:

Derek Norton
President and Chief Executive Officer

David G. Broadhurst
Director, Chairman of the Audit Committee

(dollars in thousands except for per share amounts) Year Ended December 31,	Note	2001	2000
Investment Income			
Mortgage interest income		**$ 15,303**	$ 14,887
Interest on cash and cash equivalents		**2,085**	2,393
Leasing income		**2,204**	-
Other income		**5,762**	2,386
		25,354	19,666
Financial Expenses			
Interest expense		**10,255**	10,677
Other expenses		**1,385**	934
		11,640	11,611
Net investment income		**13,714**	8,055
Fee income	15	**13,023**	15,198
Revenue from operations		**26,737**	23,253
Operating Expenses			
Salaries and benefits		**10,523**	8,349
General and administrative		**6,414**	6,467
Occupancy		**1,920**	1,791
Information systems		**1,104**	1,109
		19,961	17,716
Income before income taxes		**6,776**	5,537
Recovery of income taxes and large corporation taxes	13	**(19)**	(673)
Net income for the period		**$ 6,795**	$ 6,210
Retained earnings (deficit), beginning of period		**491**	(463)
Dividends		**(5,458)**	(5,256)
Retained earnings, end of period		**$ 1,828**	$ 491
Earnings per share		**$ 0.852**	$ 0.803
Dividends per share		**$ 0.680**	$ 0.680
Weighted average # of shares (000's)		**7,978**	7,729

See accompanying notes

(dollars in thousands) *Year Ended December 31,*	2001	2000
Cash Provided by (used for):		
Operating Activities		
Net income for the period	$ 6,795	$ 6,210
Adjusted for non-cash items:		
Equity income from partly owned companies	(769)	(371)
Provision for losses	892	476
Amortization of capital assets	874	772
Amortization of intangible assets	34	-
Amortization of other assets	430	354
Amortization of mortgage premium/discounts	(11)	(9)
Future tax assets	(711)	(661)
Provision for decline in value of marketable securities	-	160
(Increase) decrease in non-cash working capital:		
Mortgages held for resale	(4,099)	(200)
Receivables	1,302	(3,170)
Creditors	(1,120)	(6,076)
Cash flows from (for) operating activities	3,617	(2,515)
Investing Activities		
Marketable securities	(1,889)	350
Mortgage advances	(158,886)	(103,019)
Mortgage reductions	192,908	98,758
Investor loans	(283)	(209)
Leases	503	-
Dividends received from partly owned companies	42	211
Additions to capital assets	(762)	(1,313)
Additions to goodwill and intangible assets	(1,303)	-
Additions to other assets	(662)	(541)
(Increase) decrease of other investments	1	(1,002)
Increase of cash related to business combination	-	12,923
Cash flows from investing activities	29,669	6,158
Financing Activities		
Increase in loans payable	2,949	2,831
Issue of debentures	429,060	294,849
Repayment of debentures	(460,707)	(282,360)
Redemption of common shares	-	(1)
Dividends	(5,458)	(5,256)
Cash flows (for) from financing activities	(34,156)	10,063
Increase (decrease) of cash and cash equivalents	(870)	13,706
Cash and cash equivalents, beginning of period	21,211	7,505
Cash and cash equivalents, end of period	$ 20,341	$ 21,211
Supplementary Information		
Interest paid during the year	$ 12,481	$ 11,026
Taxes paid during the year	$ 1,188	$ 103

See accompanying notes

(dollars in thousands except for share amounts)

1. BASIS OF PRESENTATION

MCAP Inc. (the "Company") is a Loan Company under the Trust and Loan Companies Act [the "Trust Act"] and a Mortgage Investment Company under the Income Tax Act (Canada) [the "Tax Act"]. The Company was formed on the combination on January 1, 2000 of MTC Mortgage Investment Corporation ("MTC"), MCAP Financial Corporation ("MCAP") and Interior Capital Corporation ("ICC"). The combination was effected by an exchange of shares of MCAP and ICC for shares of MTC and accounted for as a reverse takeover, with MCAP being deemed the acquirer for accounting purposes. Immediately after the combination was completed, the Company changed its name to MCAP Inc. As part of the combination, certain assets, liabilities and business were transferred to a newly formed subsidiary company. The accounts of the subsidiary company (now named MCAP Financial Corporation) have been consolidated in this financial statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As required under subsection 313 (4) of the Trust Act, these consolidated financial statements have been prepared in accordance with the requirements of the Trust Act, which states that, except as otherwise specified by the Office of the Superintendent of Financial Institutions Canada ("OSFI"), the consolidated financial statements are to be prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies used in the preparation of these consolidated financial statements, including the accounting requirements of the Superintendent, are summarized below. These accounting principles conform, in all material respects, to Canadian generally accepted accounting principles.

Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries MCAP Financial Corporation and MCAP Securities Inc.

In August 2001, the Company acquired the 90% of the outstanding shares of MTC Leasing Inc. ("MTCL") that were not already held by the Company and its subsidiaries. As a result, these consolidated financial statements include the accounts of MTCL for the period August through December 2001. Prior to August 2001, the Company's 10% interest in MTCL was recorded on the equity basis to reflect the Company's significant influence.

The results of MCAP Financial Corporation include 50% of the results of MCAP Commercial Limited Partnership, a joint venture operation between MCAP Financial Corporation and Crown Life Insurance Company. The joint venture operation was effective September 2000.

The Company's 20% interest in MCAP Mortgage Corporation and MCAP Service Corporation are accounted for using the equity method.

The purchase method has been used to account for all acquisitions. Intercompany balances and transactions are eliminated.

Cash and Cash Equivalents

Cash and cash equivalents include balances with banks, short term investments with maturity dates of less than 90 days from the date of acquisition and outstanding cheques. Cash and cash equivalents are stated at cost plus accrued interest.

Marketable Securities

Marketable securities are stated at cost less any write-down for decline in value which is other than temporary.

Mortgages and Mortgages Held for Resale

Mortgages held directly by the Company are carried at the cost amount outstanding plus accrued interest less unearned income and an allowance for loan losses.

Certain mortgages held for resale by the Company and MCAP Financial Corporation as part of trading inventory are stated at estimated market values.

Impaired Loans

Interest on mortgages is accrued as earned until such time as the loan is classified as impaired. At that time a specific provision is made to the allowance for loan losses to reflect management's estimate of realizable amounts and the related provision is charged to income. Impaired loans are restored to an accrual basis when principal and interest payments due become current and there is reasonable assurance to ultimate collectibility.

Impaired loans include non-insured loans which are more than 90 days in arrears or are less than 90 days in arrears but for which management does not have reasonable assurance that the full amount of principal and interest will be collected. An insured loan is considered impaired when the loan is 365 days past due, whether or not collection is in doubt.

Restructured Loans

Restructured loans are those loans where, because of the weakened financial condition of the borrower, the terms have been modified. These loans are carried at the net present value of future cash flows, discounted at the contractual interest rate in effect immediately prior to the restructuring. Restructured loans are not included in impaired loans if the borrowers have complied with the terms and management has reasonable assurance that principal and interest under the new terms will be collected.

Real Estate

All real estate is acquired in settlement of loans and is carried at the lower of estimated realizable value or the loan amount, and any difference between this and the loan amount is charged to the allowance for loan losses.

Allowance for Loan Losses

An allowance for loan losses, consisting of specific and general provisions, is maintained at a level that, in management's judgement, is adequate to absorb all credit related losses in the

Company's portfolio. Specific provisions include all of the accumulated provisions for losses on particular assets required to reduce the related assets to estimated realizable value. The general provision includes provisions for losses which are prudent in nature and cannot be determined on an item-by-item basis.

The allowance is increased by provisions for losses which are charged against income, and reduced by write-offs net of recoveries. Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further collection is considered to be remote.

In management's judgement, no abnormal credit risk exists and these levels of loan loss provisions are adequate to absorb all credit related losses in the Company's portfolio, given existing conditions.

Leases

Leases are recorded at their present value using the rate implicit at the inception of the lease. An estimate of future credit losses attributable to the leases is charged against income at lease inception.

Sale of Leases

Proceeds on sales are computed as the aggregate of the initial cash consideration and the present value of any additional sales proceeds. A provision for the estimated costs plus margin of servicing the contracts on behalf of the purchaser is reflected as deferred income at the time of the sale of the receivables and is amortized into income over the duration of the related contracts. A provision for estimated credit losses relating to the contracts is recorded as deferred income at the time of the sale of the finance assets.

Recognition of Revenue and Expenses

(a) Fees received on mortgages are deferred and amortized into income over the term of the mortgage.
(b) Amounts received on the buydown of mortgage interest rates are deferred and amortized over the term of the mortgage.
(c) Commissions paid on the sale of debentures are deferred and amortized over the term of the debenture.
(d) The gain or loss on sale of mortgages held for resale is recorded at the time of sale, net of hedging and origination costs.
(e) Mortgage administration fees are recorded as earned and are presented net of administration fees paid to other parties.
(f) Origination costs paid on the Company's mortgage portfolio are deferred and amortized over the term of the loan.
(g) Lease income is recognized on Company owned leases using the interest method. Unearned finance income is recognized in income by applying a constant interest rate.

Capital Assets

Capital assets are recorded at cost. Depreciation is recorded at the following rates:

Furniture and fixtures	20% declining balance
Computer hardware	30% declining balance
Computer software	One year to five years straight line
Leasehold improvements	Lease term & one renewal

Expenses incurred for the development or enhancement of operating systems for which an economic benefit can be determined, are deferred and amortized over the expected benefit period, to a maximum of five years. Amortization commences when a significant project phase is completed.

Future Tax Assets

The Company uses the liability method of tax allocation in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Foreign Exchange

Foreign currencies are translated into Canadian dollars at year-end rates of exchange for monetary items and at exchange rates prevailing at the respective transaction dates for both non-monetary foreign assets and liabilities, and income and expense items.

Deferred Transaction Costs

Incremental transaction costs relating to the issue of debt, the issue of capital, business combinations and asset acquisitions are deferred to the extent the related transaction is "more likely than not" to proceed. Upon completion of the transaction, deferred costs relating to the issue of debt are deferred and amortized against the related financing, deferred costs related to the issue of capital are written off as a capital transaction, and deferred costs related to business combinations and asset acquisitions are added to the cost of the related business or asset. If a transaction is abandoned the deferred costs are expensed in the period.

Goodwill and Intangible Assets

The difference between the acquisition cost of a business acquisition and the fair value of the net tangible assets acquired is allocated first to intangible assets and the residual excess to goodwill. The majority of intangible assets represent servicing rights relating to acquired contracts and are amortized over the term of the related contracts. Goodwill is not amortized. Intangible assets are considered impaired and are written down to their net recoverable amount when their net book value exceeds their estimated future net cash flows. Goodwill is considered impaired and is written down to fair value when the net book value of an acquired business exceeds its fair value. The carrying value of goodwill is reviewed annually or when an event occurs that "more likely than not" reduces the fair value of an investment.

Financial Instruments

The fair market value of financial items is approximately equal to recorded amounts unless otherwise disclosed.

The following methods and assumptions were used to estimate the fair value of the on-balance sheet financial instruments:

- **Financial Instruments Valued at Carrying Value**
  Due to their short-term maturity, the carrying values of cash

equivalents, mortgages held for resale, accounts receivable and accounts payable approximate their fair values.

- **Marketable Securities**
  Fair values are based on quoted market prices, when available. If quoted market prices are not available, fair values are estimated using quoted market prices of similar securities.
- **Mortgages and Investor Loans**
  The fair values of mortgages and investor loans are estimated using a discounted cash flow calculation that uses market interest rates currently charged for similar mortgages and loans at December 31 to expected maturity amounts.
- **Real Estate**
  All real estate is acquired in settlement of loans and is carried at the lower of estimated realizable value or the loan amount. Accordingly, the fair value of real estate is its carrying value.
- **Leases**
  The fair value of leases is estimated using a discounted cash flow calculation that uses market interest rates currently charged for similar leases at December 31 to expected maturity amounts.
- **Debentures**
  The estimated fair values of debentures are determined by discounting the contractual cash flows, using market interest rates currently offered for deposits of similar remaining maturities.

3. CASH AND CASH EQUIVALENTS

	2001	2000
Cash	$ 15	$ 764
Bankers' acceptance, term deposits and commercial paper	20,302	20,375
Accrued interest	24	72
	$ 20,341	$ 21,211

4. MORTGAGES

	2001	2000
Conventional mortgages	$ 149,330	$ 166,055
NHA insured mortgages	4,262	21,418
Mortgage held for resale	12,005	7,906
Real estate	-	16
Investment in Penreal Property Trust II	2,531	2,548
	168,128	197,943
Accrued interest	617	837
	168,745	198,780
Less: Allowance for loan losses	1,600	1,164
	$ 167,145	$ 197,616
Fair market value	$ 170,128	$ 197,841

At December 31, 2001 and 2000 the Company did not hold any individual mortgage or counter party position in excess of 5% of total mortgages. A portion of the reduction in the mortgage balance resulted from the sale of $27,629 of conventional and insured mortgages.

The details of the loan provisions are as follows:

				2001	2000
Allowance for Credit Losses	**Beginning of Year**	**Additions**	**(Write Offs)**	**End of Year**	**End of Year**
Specific provisions:					
residential mortgages	$ 132	$ 455	$ (31)	$ 556	$ 132
General provisions	1,032	104	(92)	1,044	1,032
	$ 1,164	$ 559	$ (123)	$ 1,600	$ 1,164

Impaired loans are defined as loans over 90 days in arrears for uninsured mortgages and over 365 days in arrears for insured mortgages. At December 31, 2001, the Company had $4,302 of impaired loans (2000 - $1,305).

Outstanding commitments for future mortgages held for resale are $46 at December 31, 2001 (2000 - $4,268).

Outstanding commitments for future mortgages are $66,401 at December 31, 2001 (2000-$48,906). Interest rates on future mortgages are determined at the time of commitment. Outstanding commitments range for periods of up to 4 months in duration and have maturities ranging from 6 months to 5 years with rates ranging from 4.55% to 8.9%.

The Company owns five hundred common shares and $2,000 in participating notes of 3660192 Canada Inc., a private holding corporation which provides the Company with an indirect interest in Penreal Property Trust II, a Mortgage Investment Trust. The participating notes are unsecured and bear interest at 4% plus participation in the profit of Penreal Property Trust II. The notes mature in 2010. This investment is accounted for on the cost basis plus accrued participation.

5. OTHER INVESTMENTS

		2001	2000
Marketable securities	(a)	$ 10,947	$ 9,058
Leases	(b)	3,256	-
Investor loans	(c)	3,471	3,188
Filogix Inc.		1,001	1,002
Equity accounted investments	(d)	1,455	965
		$ 20,130	$ 14,213

(a) Marketable Securities

	2001	2000
Income, royalty and real estate investment trusts	$ 10,947	$ 9,058
Income, royalty and real estate investment trusts, at fair market value	$ 12,536	$ 10,254

(b) Leases

	2001	2000
Leases at cost less allowance for decline in value	$ 3,256	$ -
Fair market value	$ 3,256	$ -

The Company's subsidiary MTCL originates and securitizes equipment leases. MTCL retains an obligation to service lease contracts, retains certain credit risk and retains the right to unguaranteed residual values of leased assets. MTCL provides allowances for credit losses, losses on unguaranteed residual values and administration costs, based on its experience.

The consolidated financial statements included the following income amounts recorded by MTCL.

	2001
Proceeds from sale of leases	$ 18,478
Acquisition cost of leases (net of residual values)	16,690
	1,788
Less provision for future administration costs and credit costs	1,100
	$ 688

MTC has provided the following collateral against future credit losses of securitized leases.

Cash	$ 543
Deferred payments	2,262
Letters of credit	2,500

(c) Investor Loans

		2001		2000
Immigrant Investor Program	$	3,384	$	3,149
Accrued interest		87		39
	$	3,471	$	3,188
Fair market value	$	3,725	$	3,088

Certain debentures issued by the Company have been provided as collateral for the Investor Loans. These loans are made to borrowers under the Quebec Immigrant Investor Program. These loans have maturity of August 31, 2004, and bear interest of 7.33% per annum.

(d) Equity accounted investments

Affiliate investments are accounted for using the equity method. The Company has equity accounted investments as follows:

				2001	2000
	MTC Leasing Inc.	MCAP Service Corporation	MCAP Mortgage Corporation	Total	Total
Opening balance	$ 235	$ 384	$ 346	$ 965	$ 805
Equity income	44	498	227	769	371
Dividends	(42)	-	-	(42)	(211)
Adjustment on acquisition of control	(237)	-	-	(237)	-
Closing balance	$ -	$ 882	$ 573	$ 1,455	$ 965

(e) Acquisitions

On August 1, 2001, the Company completed the acquisition of 90% of the outstanding shares of MTC Leasing Inc. ("MTCL"). The balance of MTCL's shares were already held by the Company. The details of the acquisition are summarized below:

		2001
Cost of acquisition paid in:		
Share capital	$	4,452
Shares held in escrow		(585)
Cash		357
	$	4,224
Cost allocated to:		
Leases and other assets	$	3,366
Capital assets		673
Income taxes receivable		68
Liabilities		(1,502)
Long-term debt		(540)
Future taxes		(106)
Goodwill		2,265
	$	4,224

The total purchase price was satisfied through the issue of 593,602 common shares of the Company and cash payments of $357. Included in the total shares are 78,000 shares that are held in escrow. The release of these shares is contingent on the future earnings of MTCL. The value of these shares has been deducted from the total purchase price. If these shares are released from escrow, the Company will record an increase of $7.50 per share to the purchase price and a corresponding increase in share capital and goodwill.

6. ACCOUNTS RECEIVABLE/PAYABLE

(a) Accounts receivable

		2001		2000
Related party receivables - MCAP Service Corporation	$	-	$	1,736
- MCAP Mortgage Corporation		64		-
Other receivables		3,845		3,468
	$	3,909	$	5,204

The Company sells certain corporate services to MCAP Mortgage Corporation. During 2001, the Company sold $553 (2000 – $234) of services.

The Company sells certain corporate services to MCAP Commercial Limited Partnership. During 2001, the Company sold $586 of services (2000 – $1,106).

(b) Accounts payable

		2001		2000
Accounts payable and accrued charges	$	8,797	$	8,899
Related party payables		438		-
	$	9,235	$	8,899

The Company purchases/sells certain corporate services and mortgage origination and loan administration services from/to MCAP Service Corporation. During 2001 the Company purchased $4,894 (2000 – $7,550) and sold $541 (2000 - $673) of services.

7. CAPITAL ASSET

	2001		2000	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Furniture and fixtures	$ 2,368	$ 1,750	$ 2,030	$ 1,374
Computer hardware	1,559	1,090	1,646	1,256
Computer software	3,587	1,326	1,901	243
Leaseholds	480	287	341	139
Artwork	74	-	74	-
	$ 8,068	$ 4,453	$ 5,992	$ 3,012
Net book value	$ 3,615		$ 2,980	

8. GOODWILL AND INTANGIBLE ASSETS

		2001		2000
TD Bank Financial servicing rights	$	946	$	-
Accumulated amortization		(34)		-
Goodwill – MTC Leasing Inc.		2,265		-
	$	3,177	$	-

The Company's share of commercial and residential servicing rights acquired from TD Bank Financial in August 2001, are being amortized over 10 years, based on the maturity of the underlying mortgages.

Goodwill related to the consideration given for the acquisition of 90% of the outstanding shares of MTC Leasing Inc. in excess of fair market value of the net assets acquired. Of the total goodwill balance, $357 is deductible for income tax purposes.

9. OTHER ASSETS

	Note		2001		2000
Prepaid expenses		$	**202**	$	244
Deferred origination expenses			**229**		438
Deferred Immigrant Investor Program expenses			**-**		333
Deferred start-up costs			**141**		222
Deferred transaction costs	23		**1,000**		-
Future tax assets	13		**1,712**		1,106
		$	**3,284**	$	2,343

Deferred start-up costs relate to the Company's share of professional fees and other costs on the start-up of MCAP Commercial Limited Partnership, a joint venture with Crown Life. These costs are amortized over 36 months.

10. DEBENTURES

		2001		2000
Debentures	$	**151,254**	$	181,587
Accrued interest		**3,793**		5,107
	$	**155,047**	$	186,694
Fair market value	$	**160,130**	$	188,201

Debentures are issued to various individuals and institutions with original maturities ranging from 30 days to 5 years and bear interest at rates ranging from 1.35% to 6.45%.

11. LOANS PAYABLE

		2001		2000
Bank of Montreal	$	**9,025**	$	5,029
Royal Bank of Canada		**145**		-
	$	**9,170**	$	5,029

The line of credit from Bank of Montreal includes a senior facility of $22,500 bearing interest at the cost of funds rate plus 50 bps and a subordinated facility of $2,500 bearing interest in an amount equal to 50% of the residual interest generated by the underlying mortgages being acquired after payments of principal, interest on the senior facility and other expenses. This facility is due and payable upon demand Royal Bank of Canada loan is an operating line and bank overdraft provided to MTCL. The line of credit is a demand operating loan bearing interest at prime plus 1%. The total facility available is $6,250 and to the extent indebtedness exceeds $3,000 the interest charged is prime plus 1¼%. MTCL has provided a general security agreement covering all of its assets as collateral for the demand loan.

12. SHARE CAPITAL

The authorized share capital of the Company is unlimited common shares with no par value. Prior to June 28, 2001, the Company had authorized share capital of 15 million common shares with a par value of $10 per share.

	2001		2000	
Issued	**Shares**	**$**	**Shares**	**$**
Common shares	**8,322,573**	**$46,321**	7,728,978	$42,454

During the year, the Company issued 593,602 common shares to satisfy the $3,867 purchase of MTC Leasing Inc., of which 78,000 shares were held in escrow.

The details of share capital transactions are as follows:

Common shares	**Shares**	**$**
Shares outstanding January 1, 2001	7,728,978	$ 42,454
Shares issued to December 31, 2001	515,602	3,867
Shares issued and held in escrow	78,000	-
Shares redeemed to December 31, 2001	(7)	-
Shares outstanding December 31, 2001	**8,322,573**	$ 46,321

The Company granted Crown Life Insurance Company a right to convert its interest in MCAP Commercial Limited Partnership into common shares of MCAP Inc. commencing October 1, 2002 and ending September 30, 2005. The conversion right is calculated based on an independent valuation of MCAP Commercial Limited Partnership and limited to a maximum of 15%, of the issued and outstanding common shares of MCAP Inc.

13. INCOME TAXES

	2001	2000
Income before income taxes	**$ 6,776**	$ 5,537
Less dividends	**(5,458)**	(5,256)
Income subject to tax	**1,318**	281
Statutory rate of tax	**39%**	44%
Tax provision before the following:	**514**	124
Equity income	**(300)**	(166)
Change in valuation reserve	**(587)**	(762)
Provision for large corporations tax	**149**	80
Rate change on opening balance	**158**	-
Non-deductible expenses	**47**	51
Tax provision per financial statements	**$ (19)**	$ (673)

The details of the future tax assets are as follows:

	2001	2000
Loss carryfoward benefit	**$ 1,150**	$ 1,322
Provision for loan losses	**1,024**	263
Capital assets	**(416)**	250
Deferred mortgage expenses	**(46)**	8
Deferred immigrant investor expenses	-	(150)
Valuation reserve	-	(587)
	$ 1,712	$ 1,106

The Company is a Mortgage Investment Corporation under the Tax Act. As such, it is permitted to deduct from income for tax purposes dividends paid to shareholders during the year and within 90 days thereafter. The Company intends to continue conducting its affairs in such a manner as to continue qualifying as a Mortgage Investment Corporation under the Tax Act.

The Company's subsidiary MCAP Financial Corporation has loss carryforward amounts which will expire as follows:

2007	$ 809
2008	2,388

14. INTEREST RATE SENSITIVITY

Interest rate risk arises when principal and interest cash flows, both on and off balance sheet, including final maturities, have mismatched repricing dates. Interest rate risk, or sensitivity, is the potential impact of changes in interest rates on financial assets and liabilities.

An interest rate gap is a common measure of interest rate sensitivity. A positive gap occurs when more assets than liabilities reprice within a particular time period. A negative gap occurs when there is an excess of liabilities over assets repricing. The former provides a positive earnings impact in the event of an increase in interest rates during the time period. Conversely, negative gaps are positively positioned for decreases in interest rates during that particular time period. The determination of the interest rate sensitivity or gap position is based upon the earlier of the repricing or maturity date of assets, liabilities and includes numerous assumptions.

The gap position presented is measured at close of business on December 31, 2001. That position is subject to significant change in subsequent periods based on changes in customer preferences and in the application of asset/liability management policies.

Floating rate assets and liabilities are immediately sensitive to a change in interest rates while other assets are sensitive to changing interest rates periodically, either as they mature or as contractual repricing events occur. Non-interest rate sensitive assets and liabilities are not directly affected by changes in interest rates.

The following table presents the assets and liabilities of the Company by interest rate sensitivity:

	Less than 12 months	1 to 5 years	Over 5 years	Non interest sensitive	2001 Total	2000 Total
ASSETS						
Investments						
Cash	$ 20,341	$ -	$ -	$ -	**$ 20,341**	$ 21,211
Mortgages	118,426	41,932	1,375	5,412	**167,145**	197,616
Other investments	584	2,427	245	16,874	**20,130**	14,213
	139,351	44,359	1,620	22,286	**207,616**	233,040
Accounts receivable	-	-	-	3,909	**3,909**	5,204
Capital assets	-	-	-	3,615	**3,615**	2,980
Intangible assets	-	-	-	3,177	**3,177**	-
Other assets	-	-	-	3,284	**3,284**	2,343
Total Assets	$ 139,351	$ 44,359	$ 1,620	$ 36,271	**$ 221,601**	$ 243,567
Yield	5.60%	7.62%	7.92%	-	**-**	-
LIABILITIES AND SHAREHOLDERS' EQUITY						
Debentures	$ 99,880	$ 55,167	$ -	$ -	**$ 155,047**	$ 186,694
Accounts payable	-	-	-	9,235	**9,235**	8,899
Loans payable	9,170	-	-	-	**9,170**	5,029
Equity	-	-	-	48,149	**48,149**	42,945
Total Liabilities and Shareholders Equity	$ 109,050	$ 55,167	$ -	$ 57,384	**$ 221,601**	$ 243,567
Yield	4.06%	5.25%	-	-	**-**	-
GAP	**$ 30,301**	**$ (10,808)**	**$ 1,620**	**$ (21,113)**	**-**	**-**
YIELD SPREAD	**1.54%**	**2.37%**	**7.92%**	**-**	**-**	**-**

Mortgages with floating interest rate terms are included in assets which reprice within twelve months. The maturities of these assets are as follows: 12 months-$61,027, 1 to 5 years-$14,608.

15. FEE INCOME

The Company operates in one business segment, originating, funding and administering mortgages and other financial assets. The Company participates in the residential mortgage origination and administration through its equity investment in MCAP Mortgage Corporation and MCAP Service Corporation. Fees from origination and administration services of the Company were:

		2001		2000
Origination	$	**3,440**	$	3,819
Administration		**9,583**		11,379
Total	$	**13,023**	$	15,198

16. JOINT VENTURE OPERATIONS

The Company has a 50% interest in the MCAP Commercial Limited Partnership which is accounted for using the proportionate consolidation method.

A summary of the Company's proportionate interest in the joint venture at December 31, 2001, which commenced operations on September 1, 2000, is as follows:

		2001		2000
Statement of loss and deficit				
Revenue from operations	$	**2,207**	$	503
Operating expenses		**2,587**		683
Net loss	$	**(380)**	$	(180)
Deficit, beginning of period		**(180)**		-
Deficit, end of period	$	**(560)**	$	(180)
Balance Sheet				
Cash and cash equivalents	$	**128**	$	359
Intangible assets		**503**		-
Other assets		**417**		219
		1,048		578
Accounts payable and accrued charges	$	**297**	$	37
Related party payable		**72**		221
Long term debt		**739**		-
		1,108		258
Partners' capital		**500**		500
Partners' deficit		**(560)**		(180)
		(60)		320
	$	**1,048**	$	578
Statement of Cash Flows				
Operating activities	$	**(242)**	$	(141)
Financing activities		**739**		500
Investing activities		**(728)**		-
Decrease in cash and cash equivalents		**(231)**		359
Cash and cash equivalents, beginning of period		**359**		-
Cash and cash equivalents, end of period	$	**128**	$	359

17. BORROWING AND CAPITAL RATIOS

The Company operates as a Mortgage Investment Corporation as defined under the Income Tax Act. Under the Tax Act, the Company's ability to accept deposits from the public is limited through the regulation of its borrowing ratio which is defined as the ratio of deposits and other borrowings to capital and reserves. The maximum authorized borrowing ratio of the Company is currently 5.0. As at December 31, 2001 the ratio was 3.49 (2000 - 4.23).

The Company is regulated under the Trust and Loan Companies Act. The Trust and Loan Companies Act defines two tiers of capital and computes capital ratios in relation to risk-weighted assets. OSFI has issued guidelines to federally regulated companies for capital adequacy which include meeting a minimum ratio of 8%. As at December 31, 2001, the ratio was 31.41% (2000 – 30.43%).

The second capital adequacy requirement of OSFI is an assets to capital multiple which is calculated by dividing the Company's total assets by its total capital. The Company's required regulatory capital ratio is a maximum multiple of 9. As at December 31, 2001 the Company has assets to capital multiple of 4.76 (2000 - 5.70).

18. HEDGING INSTRUMENTS

In the normal course of business, the Company enters into hedging transactions to manage market interest rate exposures on its unsold mortgage commitments and mortgages held for resale. Hedging gains and losses are expensed into income in the same year as sales of related mortgages occur.

The Company is subject to market risk, which represents the potential for changes in the value of assets and liabilities due to fluctuations in bond interest rates. The notional amounts of these hedges are:

Government of Canada Bonds

			2001			2000
Term (Years)	**Notional Amount**	**Market Value**	**Unrealized Loss**	Notional Amount	Market Value	Unrealized Loss
1 to 3	**$ -**	**$ -**	**$ -**	$ -	$ -	$ -
3 to 4	-	-	-	(5,027)	(5,177)	150
5 to 6	-	-	-	(1,034)	(1,082)	48
Total	**$ -**	**$ -**	**$ -**	**$ (6,061)**	**$ (6,259)**	**$ 198**

Unrealized gains/losses on hedging instruments are offset by unrealized losses/gains on mortgages held for resale.

19. LEASE COMMITMENTS

The future minimum annual lease commitments for premises are as follows:

	2001
2002	**$ 2,495**
2003	**2,391**
2004	**2,436**
2005	**2,377**
2006	**2,338**
Thereafter	**18,626**
	$ 30,663

20. ASSETS UNDER ADMINISTRATION

Assets under administration consist primarily of leases and financial contracts as well as various construction and commercial loans and cash collateral accounts administered on behalf of investors. The Company earns origination and administration fees on these assets.

	2001	2000
Leases and financial contracts	**$ 67,920**	$ -
Construction and commercial loans	**3,658,210**	1,592,724
Cash collateral	**27,410**	25,123
	$ 3,753,540	$ 1,617,847

21. RETIREMENT PROGRAMS

The Company has established retirement programs for its employees, including a group registered retirement savings plan (GRSP) and a deferred profit sharing plan (DPSP). The Company matches employee contributions to the GRSP to the following levels after one year of service. The maximum Company contributions are $6.75 per employee.

Years of Service	Percentage of Employee Earnings
1 - 5	2.5
6 - 10	5.0
11 and over	7.0

The Company makes additional contributions to the DPSP account of individuals who have been employed by the Company as at December 31, 1998 as follows:

Year of Service to MCAP and/or Clarica Life prior to December 31, 1998	Percentage of Employee Earnings
0 - 2	0.5
3 - 5	0.75 to 3.75
6 - 10	1.0 to 4.0
11 and over	1.25 to 4.25

The level of DPSP contribution also depends on the age of the employee at December 31, 1998.
The retirement program expenses recorded for the year ended December 31, 2001 were $262 (2000 - $271).

22. EMPLOYEE SHARE OWNERSHIP PROGRAM

The Company has established a share ownership program for its employees. The program provides employees the opportunity to purchase shares of MCAP Inc. The Company matches employee purchases to the following levels:

Participating employees may purchase no less than 1% and up to a maximum of 6% of their annual base salary. The Company will match 50% of the purchase price, up to a maximum of 3% of the employee's annual base salary. The Company's contributions remain unvested until December 31st of the year they were purchased.

The employee share ownership program expenses recorded for the year ended December 31, 2001, were $54 (2000 - $1).

23. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform to the presentation adopted in the current year.

24. SUBSEQUENT EVENTS

On February 11, 2002, the Company announced an agreement with Bentall Capital and Cadim Inc., which will provide the Company and its wholly owned subsidiary, MCAP Financial Corporation, with capital financing of $27.2 million. The agreement includes the purchase of 960,000 common shares of the Company at $7.50 per share, warrants to acquire up to an additional 3.4 million common shares at $7.50 per share, and a $20 million unsecured, subordinated debenture from MCAP Financial Corporation, convertible into 50.1% of the outstanding shares of MCAP Financial Corporation. The warrants vest over a five-year period. In addition, Cadim Inc. has agreed to provide up to $200 million of credit-enhancement facilities for use by MCAP Financial Corporation in its securitization programs. Concurrent with these transactions, Cadcap Inc., a 100% subsidiary of Cadim Inc., will purchase Crown Life's 50% interest in MCAP Commercial Limited Partnership. Crown Life has agreed to re-invest the proceeds received in common shares of the Company at $8.25 per share.

On November 27, 2001, the Company announced its intention to purchase Canada ICI Mortgage Services Group (Canada ICI) and mortgage servicing rights of ICI Mortgage Manages Inc. The Company expects to complete this transaction in the first quarter of 2002 and intends to fund the purchase with a portion of the convertible debenture.

Photos starting from top left

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Chairman of the Human Resources and Compensation Committee
Member of the Conduct Review and Corporate Governance Committee
Director since February 2000

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Member of the Conduct Review and Corporate Governance Committee
Chairman of the Audit Committee
Director since May 1997

Raymond Doré, C.A.

Chairman and CEO, MCAP Financial Corporation
Chairman of the Board of MCAP Inc.
Member of the Human Resources and Compensation Committee
Director since May 1997

Rudolph W. Gardner, Q.C.

Counsel, Fasken Campbell Godfrey
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Member of the Audit Committee
Director since January 1991

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Member of the Human Resources and Compensation Committee
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David A. MacIntosh, M.A.

Company Director
Chairman of the Investment Committee
Member of the Audit Committee
Director since January 2000

Derek Norton, B.COM.

President and CEO, MCAP Inc.
Director since July 2000

Ian Sutherland, B.COM., C.A., C.F.A.

Chairman, North West Company
Member of the Investment Committee
Director since January 1991

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Derek Norton
President and CEO, MCAP Inc.

Blaine Welch
Senior Vice-President and Chief Risk and Investment Officer, MCAP Inc.

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MCAP Service Corporation and COO,
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Patti Somers
Vice-President, Systems

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Commercial Administration
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Vice-President and Director

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Suite 400, M5H 3T4
416-598-2665 or 1-800-387-4405

Kitchener
101 Frederick Street
Suite 200, N2H 6R2
519-743-8773 or 1-800-265-2624

Vancouver
1140 West Pender Street
Suite 1400, V6E 4G1
604-681-8805 or 1-800-977-5877

Calgary
435 - 4th Avenue S.W.
Suite 250, T2P 3A8
403-266-5722

Montreal
1550 Metcalfe Street
Suite 1510, H3A 1X6
514-282-8038 or 1-888-811-2529
1 Westmount Square
Suite 1440, M3Z 2P9
514-989-1909

Edmonton
10235 - 101st Street
Suite 1312, T5J 3J8
780-414-0911 or 1-800-265-2624

Halifax
2000 Barrington Street
Suite 522, B3J 3K1
902-422-1920

Regina
1874 Scarth Street
Suite 1950, S4P 4B3
306-546-6144 or 1-866-881-5580

Corporate Information

Auditors
Ernst & Young LLP
Toronto, Ontario

Corporate Counsel
Blake, Cassels & Graydon LLP
Toronto, Ontario

Bank
Bank of Montreal
First Canadian Place
Toronto, Ontario

Registrar and Transfer Agent
Computershare Trust Company of
Canada, Toronto, Ontario

Web Sites
Corporate
mcap.com
Immigrant Investor
newcanadianplan.com
Investor Services
investorinquiry.com
Broker Lending
mcapbroker.com

Public Listing
Toronto Stock Exchange
Exchange symbol MKP

Annual Meeting
May 16, 2002 at 4:00 p.m.
St. Andrew's Club and
Conference Centre
150 King Street West, 27th Floor
Toronto, Ontario

Affiliations

MCAP is a member of the following organizations:

Alberta Mortgage Brokers Association
Canadian Institute of Mortgage Brokers and Lenders
Canadian Investor Protection Fund
Canadian Management Centre
Commercial Mortgage and Lender Association
Investment Dealers Association
Mortgage Bankers Association of America
Mortgage Brokers Association of British Columbia
National Association of Industrial and Office Properties
Ontario Long Term Care Association
Societas International
Urban Development Institute

MCAP is regulated by the following regulatory bodies:

Canada Deposit Insurance Corporation
Commercial Mortgage Securities Association (US)
Financial Services Commission of Ontario
Office of the Superintendant of Financial Institutions
Real Estate Institute of British Columbia
The Mortgage Loans Association of Alberta

MCAP has significant business relationships with the following organizations:

Bank of Montreal
Clarica Life Insurance Company
Crown Life Insurance Company
Data Select Systems, Inc.
Filogix Inc.
ING Direct
Invis
Manulife Bank
MetLife
Penreal Property Trust
Marlborough Stirling Plexus Inc.
Teranet
TD Canada Trust
Xceed Mortgage Corporation

MCAP receives mortgage insurance coverage from:

Canada Mortgage and Housing Corporation
GE Capital Mortgage Insurance Corporation

MCAP supports the following charitable organizations:

Habitat for Humanity
United Way

MCAP Inc.

200 King Street West, Suite 400
Toronto, ON M5H 3T4
(416) 598-2665 or 1-800-387-4405

www.mcap.com